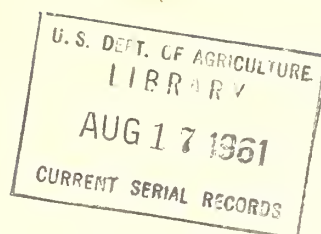


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# DEVELOPMENTS IN MARKETING SPREADS FOR AGRICULTURAL PRODUCTS IN 1960

Marketing Economics Division  
Economic Research Service  
U. S. Department of Agriculture

(Statement Before the Subcommittee of the Com-  
mittee on Appropriations, House of Representatives.  
Eighty-Seventh Congress, First Session)



## PREFACE

The Congress in 1955 directed the Department of Agriculture to make special studies of spreads between prices paid by consumers and those received by farmers. The Department has published reports of several of these studies. The reports published in 1960 and early 1961 are summarized in this report, which was prepared for the Subcommittee of the Committee on Appropriations, House of Representatives.

Four similar reports summarize the results of earlier studies: Special Margins and Costs Studies, Marketing Research Report No. 187, April 1957; Special Studies of Marketing Costs and Practices, Marketing Research Report No. 240, October 1958; Developments in Marketing Spreads for Agricultural Products in 1958, AMS-316, June 1959; Developments in Marketing Spreads for Agricultural Products in 1959, AMS-374, May 1960.

### The Farm-Retail Spread

The FARM-RETAIL SPREAD or marketing margin is an estimate of charges made by marketing agencies for assembling, processing, transporting, and distributing a farm product. It is the difference between the retail price and the farm value. The FARM VALUE is the return to the farmer for farm products equivalent to those bought by the consumer.



Growth Through Agricultural Progress

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Washington, D. C.

July 1961

## DEVELOPMENTS IN MARKETING SPREADS FOR

### AGRICULTURAL PRODUCTS IN 1960

#### RECENT TRENDS IN FOOD PRICES AND MARKETING SPREADS

Spreads between farm and retail prices of food products reached a new high in 1960, but the 1960 average was only slightly above 1959 (table 1, column 3). The rise in farm-retail spreads in 1960 was the smallest since 1950. As a result, most of the rise in food prices at retail in 1960 was reflected in higher farm prices. This was in marked contrast to most previous years when the greater part of any increase in retail prices was absorbed by higher marketing spreads. Increased efficiency of the food marketing system was an important factor in keeping down the rise in marketing spreads in 1960 as wage rates and other marketing costs continued to rise.

In 1960, the retail-store cost of a "market basket" of farm food products <sup>1/</sup> was \$1,052, an increase of \$12 or 1 percent from 1959. Of this \$12-increase, \$10 went to farmers and \$2 to marketing agencies. The farm value of the foods in the market basket increased from \$398 in 1959 to \$408 in 1960, while the farm-retail spread rose from \$642 to \$644. The farm value in 1960 was still well below the high of \$497 reached in 1951 (table 1, column 2).

Farmers received an average of 39 cents of the consumer's retail food dollar in 1960, a slight increase from 38 cents in 1959. However, except for 1959, the farmer's share was at the lowest level in 20 years (fig. 1).

#### Food Prices Rise Less Than Other Consumer Prices

Retail food prices have risen less than all other major groups of goods and services in the BLS Consumer Price Index with the exception of apparel (fig. 2). Prices of all goods and services bought by consumers averaged 26 percent higher in 1960 than in the base period 1947-49, compared with an increase of 17 percent for food bought for preparation at home. Overall, food prices declined in several years of the last decade in contrast to the continuing rise in prices of housing, transportation, medical care, and other

services. Retail prices of some foods are lower than they were in 1947-49. Retail prices of food originating on American farms have increased less than prices of imported foods so that retail prices of domestically produced food products have risen less than the 17 percent for all food.

The prices received by farmers for their food products averaged 12 percent lower in 1960 than in 1947-49 so all the increase in food prices was the result of higher marketing spreads (fig. 3).

---

<sup>1/</sup> Representing the average quantity per family of food purchased annually in retail food stores by urban moderate-income families.



Table 1.--The farm food market basket: Retail cost, farm value, farm-retail spread, and farmer's share of retail cost, 1947-61 1/

Year and Month	Retail cost <u>2/</u>	Farm value <u>3/</u>	Farm-retail spread	Farmer's share
	Dollars	Dollars	Dollars	Percent
1947-49 average .....	940	466	474	50
1950 .....	920	432	488	47
1951 .....	1,024	497	527	49
1952 .....	1,034	482	552	47
1953 .....	1,003	445	558	44
1954 .....	986	421	565	43
1955 .....	969	395	574	41
1956 .....	972	390	582	40
1957 .....	1,007	401	606	40
1958 .....	1,064	430	634	40
1959 .....	1,040	398	642	38
1960 <u>4/</u> .....	1,052	408	644	39
1960				
January .....	1,030	388	642	38
February .....	1,028	394	634	38
March .....	1,032	412	620	40
April .....	1,053	416	637	39
May .....	1,055	409	646	39
June .....	1,062	405	657	38
July .....	1,063	409	654	38
August .....	1,055	402	653	38
September .....	1,054	404	650	38
October .....	1,062	413	649	39
November .....	1,065	421	644	40
December .....	1,068	422	646	39
1961				
January .....	1,068	418	650	39
February .....	1,070	424	646	40
March .....	1,068	414	654	39
April .....	1,069	408	661	38
May .....	1,060	396	664	37

1/ The farmer's share and index numbers of the retail cost, farm value, and farm-retail spread for the years 1913-56 are published in Farm-Retail Spreads for Food Products, U. S. Dept. Agr. Misc. Pub. 741, 1957.

2/ Retail cost of average quantities of farm foods purchased per urban wage-earner and clerical-worker family in 1952, calculated from retail prices collected by the Bur. Labor Statistics.

3/ Payment to farmers for equivalent quantities of farm produce minus imputed value of byproducts obtained in processing.

4/ Preliminary estimates.



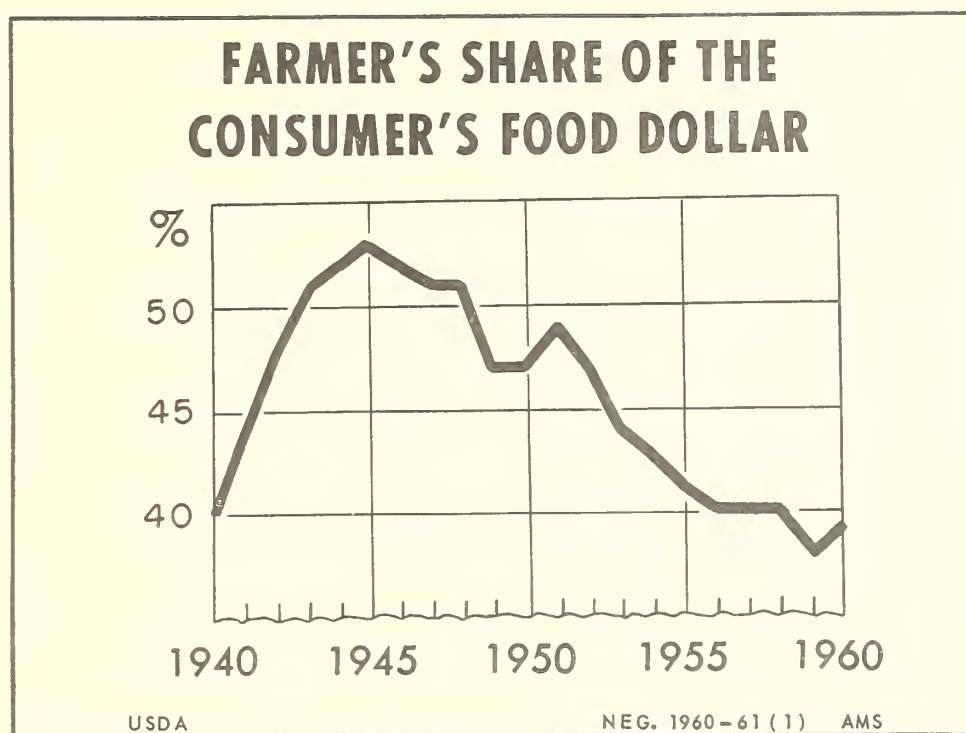


Figure 1

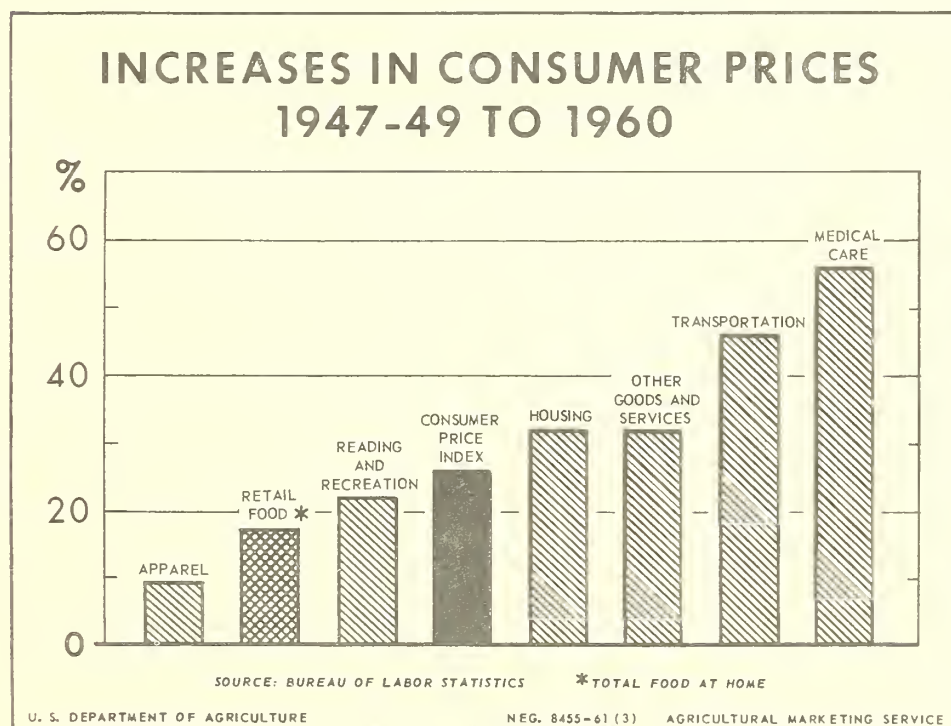


Figure 2

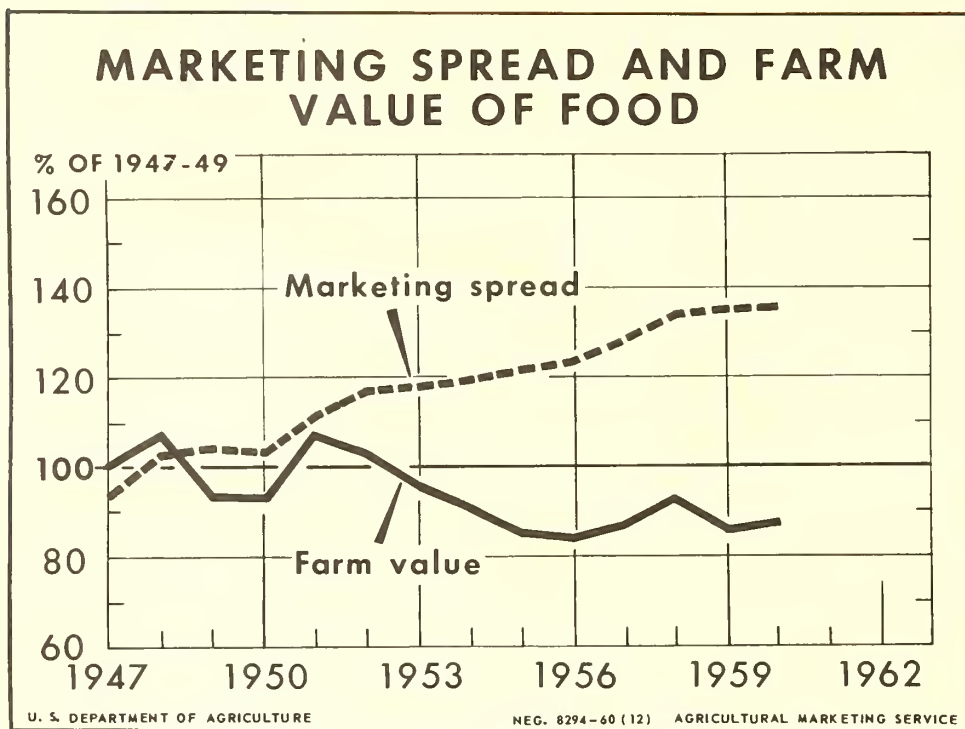


Figure 3

### Food Prices Rise Less Than Incomes

Fewer hours of labor were needed to buy a market basket of farm foods in 1960 than in 1947-49. The typical factory worker could buy the annual "market basket" of farm foods with his wages from 515 hours of labor compared with 724 hours in 1947-49 (fig. 4). <sup>2/</sup> Thus, his pay for more than 200 hours was made available for nonfood purchases or increased expenditures for food. This has enabled some families to "upgrade" their diets through buying more meats, more "expensive" out-of-season foods, and foods with more built-in maid services that save kitchen preparation time for homemakers.

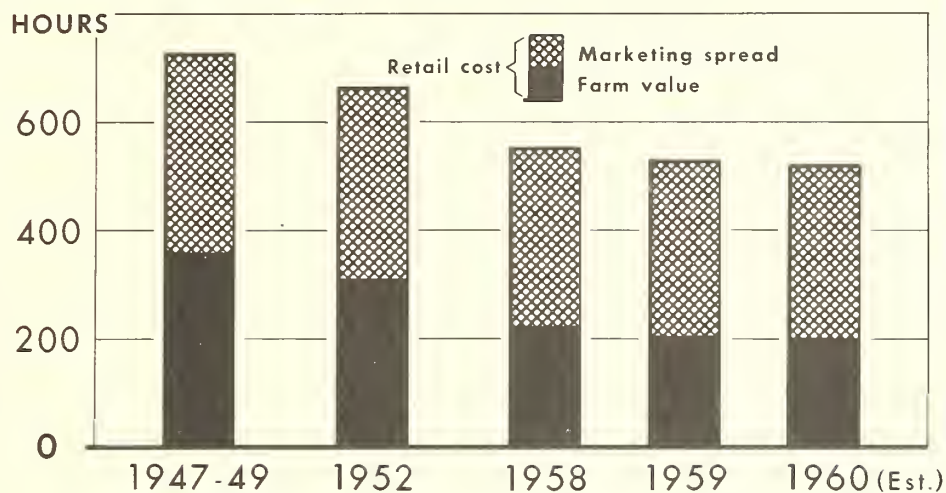
Higher family incomes and lower prices to farmers are the principal factors lowering "real" costs of food to urban

consumers. The average number of hours of the wage earner's pay going to farmers for producing the foods in the market basket declined by close to 50 percent between 1947-49 and 1960. However, increased efficiency in the marketing of food products also has lowered real costs of food.

With an hour's wages the factory worker could buy more of most items in the market basket in 1960 than in 1947-49. For example, he could buy 2.5 pounds of Choice grade beef in 1960 compared with less than 2 pounds in 1947-49. For some products -- eggs and vegetable shortening -- the buying power of the hour's wages in 1960 was double that in 1947-49 (table 2).

<sup>2/</sup> The market basket contains the average quantities of farm-produced food products purchased per family in 1952 for consumption at home by wage-earner and clerical-worker families. It does not include coffee, bananas, pineapples, seafoods, or other imported foods and nonfarm foods, or food purchased in the form of restaurant meals. It does not, therefore, include all food bought by these families.

# LABOR REQUIRED TO BUY FARM FOOD MARKET BASKET



AVERAGE ANNUAL PURCHASES OF FARM FOODS BY URBAN FAMILIES IN 1952; RETAIL COST, FARM VALUE AND MARKETING SPREAD DIVIDED BY AVERAGE NET HOURLY EARNINGS OF MANUFACTURING WORKERS.

U. S. DEPARTMENT OF AGRICULTURE

NEG. 7640-61 (1) AGRICULTURAL MARKETING SERVICE

Figure 4

Table 2.--Farm food buying power of an hour's labor, 1947-49 and 1960

Food	Unit	Units bought with 1 hour labor <sup>1/</sup>		
		1947-49	1960	Percentage increase
Apples .....	Pound	10.9	12.6	15
Beans, green .....	Pound	6.1	8.1	33
Beef, Choice grade .....	Pound	1.9	2.5	32
Bread, white .....	Pound	9.6	10.1	5
Eggs .....	Dozen	1.8	3.6	100
Milk, fluid .....	Quart	6.5	8.1	25
Oranges, fresh .....	Dozen	2.8	2.7	-4
Peas, canned .....	No. 303 can	6.1	9.9	62
Pork cuts .....	Pound	2.2	3.6	64
Potatoes .....	Pound	24.0	29.0	21
Sugar .....	Pound	13.5	17.5	30
Tomatoes, canned .....	No. 303 can	9.1	12.9	42
Vegetable shortening .....	Pound	3.6	7.5	108

<sup>1/</sup> Based on average retail prices paid by urban consumers and average hourly earnings of workers in manufacturing.

Consumers spent more dollars for food in 1960 than in 1947-49, but they spent a smaller proportion of their income for food. Expenditures for all food including imported food, seafood, and food away-from-home, amounted to 20 percent of disposable income in 1960 compared with

26 percent in 1947-49, and 23 percent in the 1935-39 period. Thus, spending for food has increased at a less rapid rate than income, although consumers are now buying more "expensive" food and more marketing services with their food than they did before World War II.

### Increase in Marketing Efficiency Holds Down Rise in Marketing Spreads

Cost increases.--Wage rates and the costs of many other items in the marketing of food products continued to rise in 1960. State and local taxes and rents rose in most areas of the country in 1960. During much of 1960, interest rates were at the highest levels since the early 1930's. Advertising costs climbed. Prices of machinery and equipment and construction costs were higher.

Hourly earnings of employees of food marketing firms averaged 8 cents an hour higher in 1960, about the same rise as in each year since 1950. The average hourly earnings of \$2.14 were almost 80 percent higher than the average of \$1.21 in 1947-49. Supplements to wages and salaries have risen faster than average hourly earnings. In recent years these supplements have amounted to more than 5 percent of total labor costs.

Advertising expenditures by food marketing corporations have become a significant item in the farm food marketing bill. Estimates for 1960 indicate that food manufacturers, wholesalers, and retailers spent about 1.3 billion dollars for advertising -- 3 times the amount spent in 1947-49 (fig. 5). Advertising expenditures are largest for the food processors, but retailers' advertising outlays have been rising at the most rapid rate in recent years. This faster rate is partially explained by an increase in the proportion of retailing done by large corporations and the continued growth in advertising of retailer brands.

Taxes also are a significant and growing

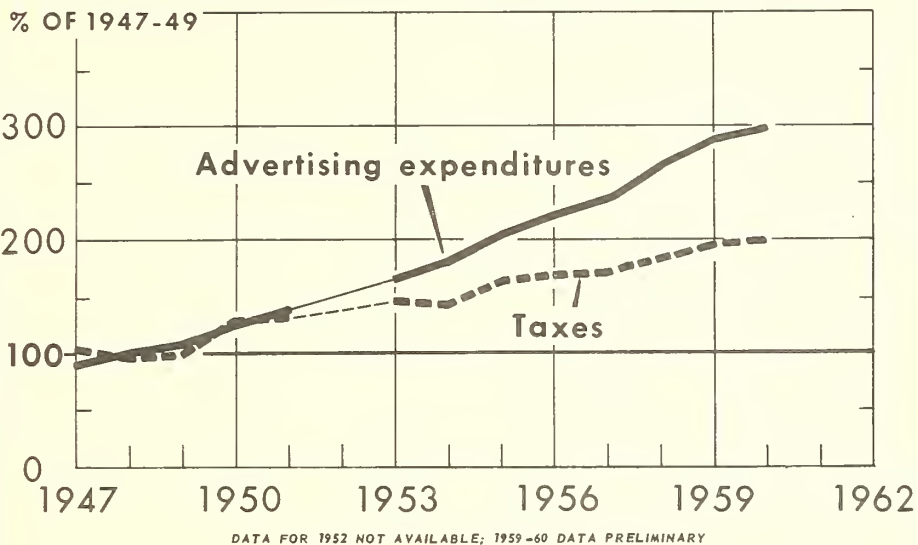
item in the marketing bill. Taxes paid by corporations engaged in processing, wholesaling, and retailing food products are estimated at 1.9 billion dollars in 1960, an increase of about 2 percent over the previous year. Of these taxes, about 60 percent were Federal income taxes. The remainder include real estate and personal property taxes, and all other taxes reported by corporations on income tax returns. It is estimated that total direct taxes paid by corporate and noncorporate food marketing firms and retail sales taxes on food probably amounted to about 2.6 billion dollars in 1960. Sales taxes on retail food store sales of food items in 1960 probably amounted to another 400 million. Although sales taxes generally are not included in the retail prices of foods, they do represent part of the cost of food products to consumers.

Profits.--Profits, both as a percentage of sales and in total, have been increasing in recent years. In the early 1950's, profits as a percentage of the sales dollar of food marketing firms were substantially below the 1947-49 average. But since 1955, profit rates have generally moved upward and are now about equal to the 1947-49 average. Profits rose immediately following World War II reflecting, in part, the discontinuance of price controls and the accompanying sharp rise in prices.

Total profits of leading food marketing firms have increased sharply because of increased sales volume and higher price levels (fig. 6).



## ADVERTISING COSTS AND TAXES

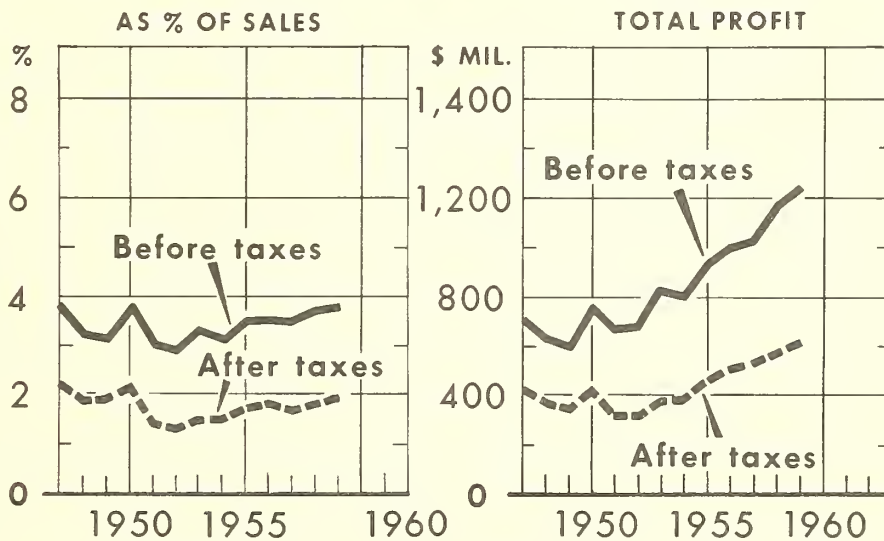


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Figure 5

## FOOD MARKETING FIRMS' PROFITS



DATA FOR 45 PROCESSING COMPANIES, 5 WHOLESALE DISTRIBUTORS, AND 8 RETAIL FOOD CHAINS

U. S. DEPARTMENT OF AGRICULTURE

NEG. 8296-60 (12) AGRICULTURAL MARKETING SERVICE

Figure 6

Gains in marketing efficiency.--Despite cost increases in 1960, marketing spreads for food products averaged only three-tenths of a percent higher in 1960 than in 1959. Increased marketing efficiency evidently held down any further rise in marketing spreads as marketing services performed did not decrease and profits were slightly higher in 1960 than in the preceding year. If these gains in efficiency had not occurred, either food prices would have risen more than they did or farm prices of food products would have declined.

Most of the savings from improved marketing efficiency in recent years have been passed on to farmers and consumers. Only a small part has been retained by marketing firms as net profits. Thus, it is evident that competition, despite some imperfections, has been a potent force in food marketing. Public benefits accrue from research to increase the efficiency of marketing firms, as well as from research to maintain or improve the effectiveness of competition itself.

The importance of improvements in marketing efficiency to both farmers and consumers can be illustrated by considering impacts of increased efficiency on labor costs in marketing farm foods. The total labor bill increased from about 12 billion dollars in 1950 to over 19 billion dollars in 1960, or more than 50 percent. But during this decade, average hourly earnings rose 60 percent and total marketing services performed increased 30 percent. The increase in marketing services resulted both from increases in services performed per unit of product marketed as well as in the total volume of food marketed. If labor costs per unit of product marketed had increased at the same rate in the 1950's as hourly earnings, the total labor bill in 1960 would have been up by an additional 7 billion dollars.

Other examples of the spectacular increases in labor productivity can be cited. For example, the output per man-hour in the factory processing of food was about 40 percent greater in 1960

than in 1947-49. Although the total volume of factory processed food increased by about a third from 1947-49 to 1960, the total number of man-hours worked declined slightly (fig. 7).

Output per worker has improved in food retailing as well as in processing. Sales per worker in grocery stores were more than a third larger in 1958 than in 1948, expressed in dollars of constant purchasing power (fig. 8). Much of the gain in sales per employee, particularly during the early part of this period, came from an increase in self-service. Further gains were made by improving store layout, equipment, and handling practices. Part of the gain probably resulted from concentration of operations in fewer stores.

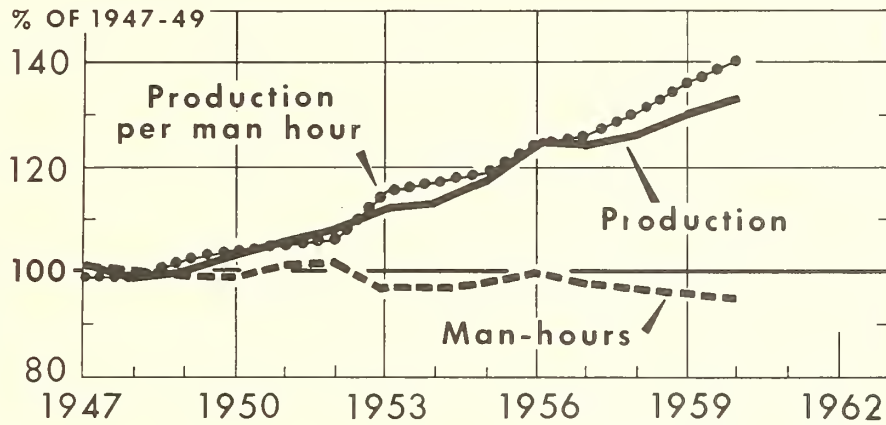
Because of this increased output of marketing services per man-hour, labor costs per unit of output have risen only half as fast as hourly earnings since the end of World War II. In the early postwar years, labor costs tended to rise almost as fast as hourly earnings, but in recent years unit labor costs have risen at a much slower rate (fig. 9). Large investments in new plant and equipment and greater emphasis on marketing research, both public and private, apparently accelerated gains in labor productivity in recent years over the moderate gains during World War II and the immediate postwar period.

Variations by product groups.--Marketing spreads have not increased at the same rate for all food products. The overall increase in the farm-retail spread for the market basket was 36 percent from 1947-49 to 1960. But for two product groups -- poultry and eggs, and fats and oils -- spreads were at a lower level in 1960 than in 1947-49, while the spread for bakery and cereal products increased almost 60 percent (fig. 10).

In the marketing of poultry and eggs and fats and oils, all of the cost increases in the last decade were offset by increased efficiency in the marketing process. It should be noted that this

**Factory Production of Farm Food**

# **PRODUCTION, MAN-HOURS, AND PRODUCTION PER MAN-HOUR**



EXCLUDES PROCESSING OF FLUID MILK AND CREAM AND EGGS.

1960 DATA ARE PRELIMINARY.

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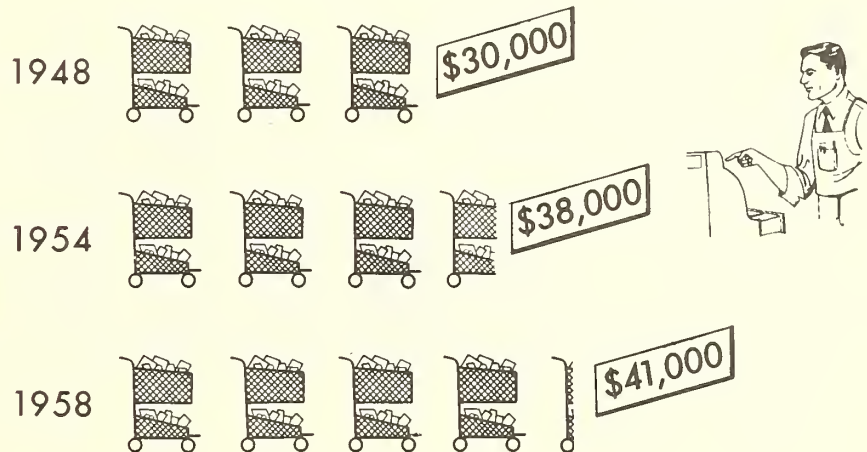
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AGRICULTURAL MARKETING SERVICE

Figure 7

**In Retail Grocery Stores**

# **AVERAGE SALES PER WORKER**



BASED ON BUREAU OF THE CENSUS DATA.

INCLUDES DELICATESSEN STORES.

SALES IN 1958 DOLLARS.

U. S. DEPARTMENT OF AGRICULTURE

AMS NEG. 8141-60 (10)

Figure 8





Figure 9

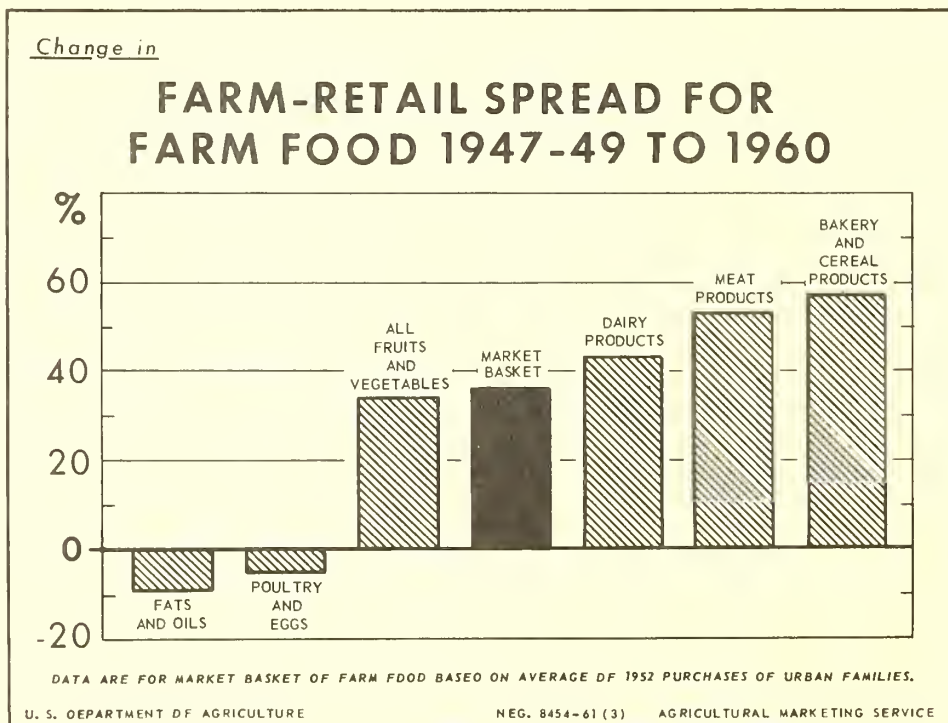


Figure 10

increased efficiency, especially in the case of poultry and eggs, likely would not have been achieved without the corresponding gains in efficiency in the production of poultry and eggs. However, for other product groups it appears that a large part of the cost increases were reflected in higher marketing spreads, thus in-

creasing prices to consumers and/or reducing prices to farmers. Changes in services performed do not appear to be a major factor in explaining variations in these marketing spreads shown in figure 10. More detail on changes for various products and product groups are given on pages 15-29.

## SPECIAL PRICE SPREAD STUDIES

To improve public understanding of the factors associated with changes in food prices, emphasis was placed during the last year on dissemination of data obtained in these special price spread studies. The results of these studies were distributed widely through research reports, news stories, articles in AMS periodicals, Agricultural Marketing and Agricultural Situation, radio presentations, short television features, and exhibits. The articles, derived from the primary research reports, ranged from 200 to 1,200 words and were reprinted extensively by farm,

trade, and general magazines and newspapers throughout the country. Radio and television features were distributed regularly to several hundred stations.

A full listing of the research reports and the other dissemination of the results of the price spread studies is given on pages 30-31.

Some highlights of the research findings from the studies of individual products and product groups are given in the following pages of this report.

### White Bread

Retail prices of a 1-pound loaf of bread averaged 20.3 cents in 1960, almost 7 cents higher than the 1947-49 average. This increase in the retail price was entirely the result of continued increases in marketing margins as the returns to farmers for the farm products used in a loaf of bread declined by a half cent in this period (fig. 11). About four-fifths of the increase in the total marketing margin (farm-retail spread) was accounted for by a rise in the baker-wholesale margin. The margin taken by each of the other segments in the processing and distribution of bread also increased.

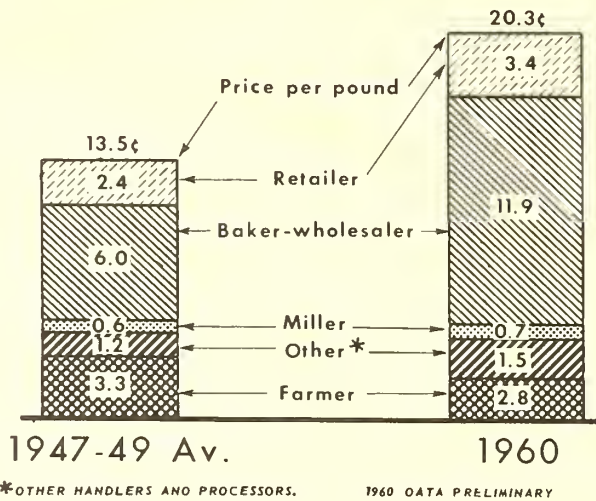
The increase in the retail price of a 1-pound loaf of white bread from 1959-60 totaled six-tenths of a cent. Each year during the period 1947-60, consumers paid

more for bread than in the preceding year. The rise in the retail price of bread since 1947 was more than double the average increase in all retail food prices and nearly double the rise in the Consumer Price Index in the same period.

With the decline in returns to farmers for wheat and other products used in bread the farmer's share of the retail price declined from an average of 25 percent in 1947-49 to 14 percent in 1960. Because the value of the wheat is such a small part of the retail price of bread, large changes in the price of wheat have relatively little effect on the price of bread. The possible effect on the price of bread if the price of wheat in 1960 were increased by more than a third -- to a parity price level -- is shown in figure 12.

Where It Goes

## CONSUMER'S BREAD PRICE



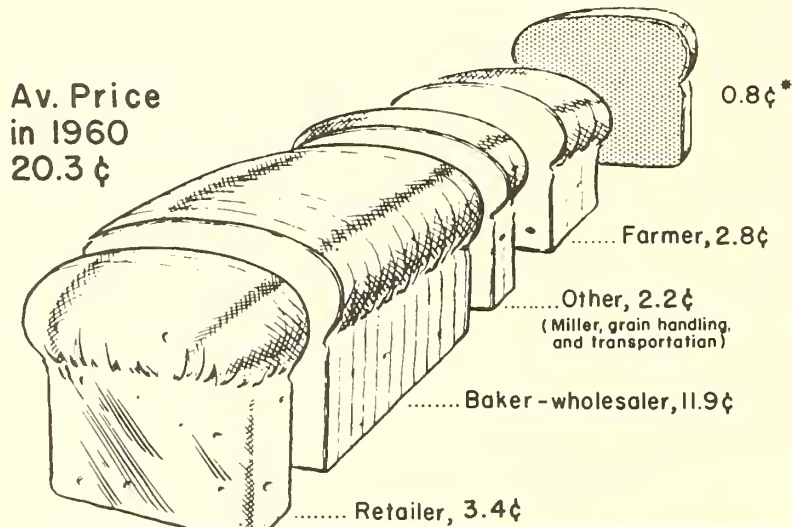
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Figure 11

Where It Goes

## CONSUMER'S BREAD PRICE



\* AT PARITY PRICE OF \$2.37 PER BU. WHEAT FARMERS WOULD HAVE RECEIVED AN ADDITIONAL 0.8¢ THIS ADDITION WOULD HAVE RAISED THE RETAIL PRICE TO 21.1¢.

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Figure 12



## Rice

In contrast to bread, marketing margins for medium-grain rice have declined steadily since 1948. In 1948-50 marketing seasons, the farm-retail spread for packaged rice averaged 10.6 cents per pound. In 1956-58 marketing seasons, the same spread stood at 10.2 cents per pound. This decline resulted from the reductions in the wholesaling and retailing, and the milling margins. Milling margins declined from 1.9 cents per pound to 1.5 cents per pound. But packaging margins increased during the period.

The farmer's share of the retail price rose from an average of 39 percent in 1948-50 to an average of 43 percent in 1956-58 marketing seasons (fig. 13).

The increase in the farmer's share and the decrease in marketing margins for medium-grain rice occurred in a period when marketing margins for most foods were increasing sharply. Much of the stability of the combined margin for wholesaling, retailing, transportation, and packaging was due to increasing competition from speciality long-grain rice. This competition forced many handlers to reduce their profit margin, thereby offsetting the increase in marketing costs. The decline in milling margin may be attributed to at least three factors: (1) Increased volume of milling during the period; (2) improvement in milling and packaging technology; and (3) the existence of price-support programs for rice in recent years, which reduced price fluctuations and uncertainties.

## Meats

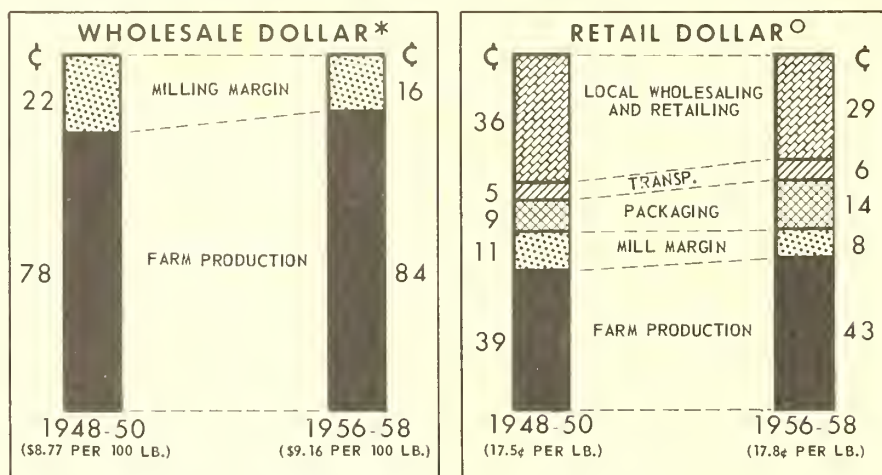
The annual average farm-retail marketing spread for beef, veal, pork, and lamb combined decreased about 3 percent from 1959 to 1960, as a result of a large drop in the farm-retail spread for pork. The farm-retail spread for beef, however, increased in 1960. Annual average retail prices of meats were slightly lower in 1960 than in 1959. The farm value of beef decreased, while that for pork increased.

Price spreads for individual meat products fluctuate considerably from month to month and from year to year (figs. 14 & 15). During short periods farm-retail spreads and farm values often change in opposite directions, as livestock prices vary more than retail prices for meat. Therefore, profits of meatpacking firms often show an inverse relationship to farm prices of livestock. For example, net profits (after taxes) of 11 major meatpackers rose from .5 percent of sales in 1958 to .9 percent in 1959, a year in which farm prices of hogs declined sharply. Over longer periods, however, marketing spreads tend to vary with marketing costs, which have been steadily increasing.

A new study on efficiency in meatpacking has been organized. Data on operating costs and factors related to operating efficiency are being reported by a group of meatpacking firms. Preliminary summaries of data mostly for 1960 from the reporting firms show that net operating margins on fresh pork, before taxes on income or returns to capital, narrowed month by month.

The distribution of the retail price per pound of meat by marketing functions differs for pork, beef, and lamb (fig. 16). The retailing margins per pound for beef and lamb are larger than for pork. In 1959, retailing margins per pound took 23.1 cents per pound (retail weight) for beef and 19.5 cents for lamb, compared with 16.4 cents for pork. More labor is required to retail beef and lamb than pork. Retailers generally buy from packer-wholesalers carcasses and primal cuts of beef and lamb, which they make into retail cuts such as roasts and steaks. They trim off excess fat, bone some cuts, and make a portion into ground meat. Retailers, however, buy pork products which require

## MEDIUM-GRAIN RICE: DISTRIBUTION OF WHOLESALE AND RETAIL DOLLAR



\*BASED ON MILL QUOTATION OF #2 ZENITH IN 100-LB. BAGS, YEAR BEGINNING AUGUST.  
<sup>o</sup>BASED ON WEIGHTED AVERAGE RETAIL PRICE IN 12 CITIES, YEAR BEGINNING OCTOBER

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NEG. 8191-60 (10) AGRICULTURAL MARKETING SERVICE

Figure 13

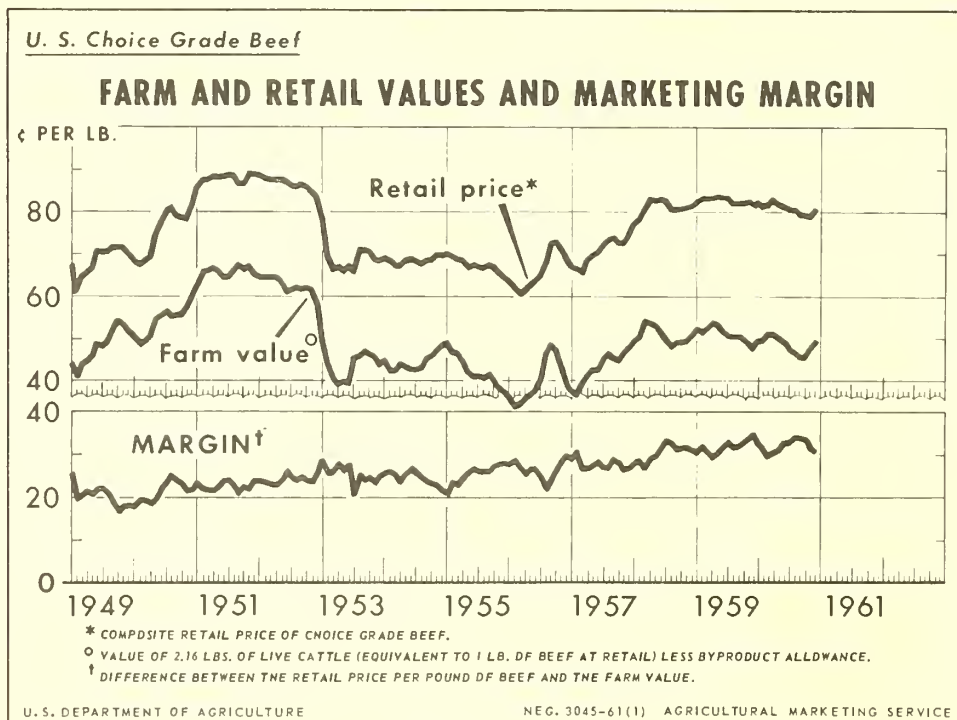


Figure 14

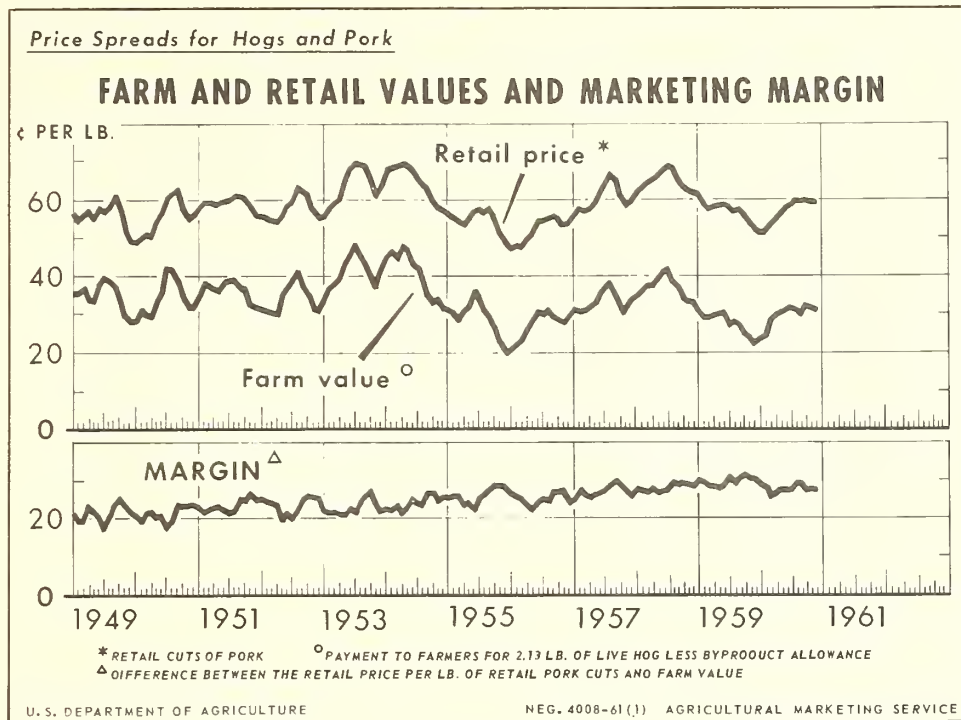


Figure 15

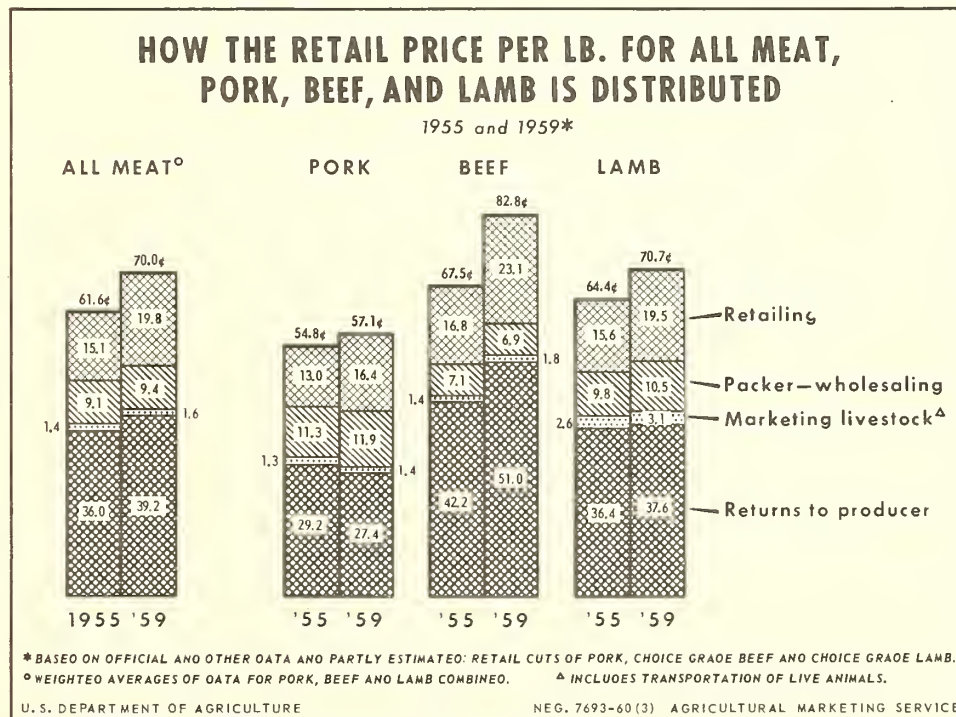


Figure 16



comparatively little further cutting and trimming, such as hams, picnics, Boston butts, and sliced bacon.

In contrast, the packer-wholesaler margin is larger per pound for pork than for beef and lamb. In 1959, it accounted for 11.9 cents per pound for pork compared with 6.9 cents for beef and 10.5 cents for lamb. This margin is larger for pork because the packer-wholesaler normally performs a larger share of the total marketing services for pork than for beef and lamb. For "block beef" and lamb, the packer-wholesaler's functions are usually confined to slaughtering the live animals and wholesaling the dressed meat

as whole or quarter carcasses. 3/ For pork, the meatpacker slaughters the hog, cuts the carcass into its component parts -- hams, bacon, picnics, Boston butts, spareribs, loins, and other -- which he sells to the retailer. He also cures, processes, and packages some pork products before selling them.

Expenses for marketing live lambstake a larger part of the retail price per pound for lamb than for hogs or cattle. These expenses are higher for lambs partly because of the relatively light weight of the animals and the greater transportation expense per pound, caused by longer distances hauled.

### Dairy Products

Fluid milk.--Retail prices paid by urban consumers for milk, mainly in single-quart purchases, averaged 25.3 cents per quart in 1960, up 0.6 cent from 1959. However, the average price per quart paid by household consumers for multiple-quart purchases rose less than the single-quart price because of the continuing shift from single-quart sales to sales in larger size containers which ordinarily sell for less per quart of milk. The weighted average retail price for milk in quarts, half-gallons, and gallons may be as much as 2 cents per quart lower than the price for quarts; it increased about half as much as the quart price from 1959 to 1960.

Prices paid to farmers for milk for fluid use increased 2 percent in 1960. Operating costs of fluid milk distributors were also higher. Personnel, operating supplies, facilities, and general costs were all higher, but container costs were lower. Net profits of fluid milk distributors, before payment of income taxes, were slightly lower than in 1959.

A detailed study was made of certain phases of the operations of 80 representative fluid milk distributors. During 1956-59 sales in half-gallons increased from about 40 percent, to over 60 percent of all fluid milk sales. There was also some shift from home-delivery sales to wholesale sales. The net receipts per quart of fluid milk by fluid milk distributors decreased slightly. Average prices for gallons and quarts increased somewhat, but those for half-gallons decreased.

By 1960, homogenized milk accounted for 74 percent of all sales of the 80 distributors, an increase of 6 percentage points in 4 years. Skim milk, low fat milk, and half-and-half also increased in importance, but creamline and special milks declined.

Personnel costs per unit of product increased 10 percent from July 1955 to June 1960. More efficient use of labor has not been sufficient to offset higher hourly earnings for labor. Unit labor costs has

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3/ "Block beef" is beef which ordinarily moves into fresh meat marketing channels rather than to processors or boners. It is the fresh beef that moves across the cutting block of the retail butcher and includes qualities of beef sold to restaurants and other eating establishments.



not increased uniformly in all phases of the operations. For fieldmen, plant workers, and executives unit costs decreased in spite of wage increases. For example, for plant workers, unit cost decreased by 10 percent, while wages increased by 35 percent. But for deliverymen, unit costs increased 21 percent, while wages increased by 26 percent, and unit costs for office workers rose by 20 percent.

Cheese.--Population growth and increased per capita consumption have had marked effects on wholesale prices of cheese and on prices paid to farmers for milk. In October-December 1960, wholesale prices were the highest in 7 years; prices paid to farmers also were the highest in recent years.

The cheese market, for the first time since 1952, has been strong for a sustained period. Wholesale prices were above price support levels continuously for the 17 months from August 1959 to December 1960. On January 27, 1961, however, the price on the Wisconsin Cheese Exchange declined 4 cents a pound.

The generally stronger demand for cheese is reflected in the retail price, marketing margin, and farm value of American processed cheese. Retail price averaged 60.6 cents per pound in 1960, up 2.4 cents from last year. Most of this increase went to farmers; the farm value of milk used for 1 pound of processed cheese was 29.6 cents, up 1.4 cents from 1959.

Butter.--Retail price for butter averaged 74.9 cents per pound in 1960, down 0.4 cent from 1959. The farm value of the milk and cream required to produce a pound of butter was 53.1 cents, up 0.6 cent from last year. The marketing margin, therefore, decreased 1.0 cent. The creamery margin was 6.0 cents, a decrease of 17 percent.

The increase in the farm value in 1960 probably resulted from competition for milk at the local plant level. Higher prices for milk for cheese strengthened the price of milk for butter.

Ice Cream.--Retail prices, marketing margins, and farm values for ice cream were quite stable during the 1954-60 period (fig. 17): Retail prices for half gallons ranged from 85.4 cents to 87.8 cents, the farm-retail spread from 63.3 cents to 66.0 cents, and farm value from 21.3 cents to 22.7 cents.

Ice cream and other frozen dairy products are of increasing importance to the dairy industry. Per capita consumption increased from 17.2 pounds in 1950 to 18.4 pounds in 1960. Of the total milk supply, frozen products utilized 5.9 percent in 1950 and 7.5 percent in 1960.

It is probable that the weighted average retail price for ice cream dropped by at least 10 percent during the 1951-60 decade, although the price of half gallons was stable. Ice cream packed in half gallons at the plant is considerably lower priced per unit of product than for hand packed or for small sized containers plant packed. During the decade sales of prepacked half gallons increased from 8 percent to 46 percent of total ice cream sales; bulk ice cream for hand packing or consumption on premises decreased from 46 percent to 18 percent, and prepacked pints decreased from 25 percent to 15 percent (fig. 18).

Nonfat dry milk for home use.--The average retail price in 20 cities of a pound of instant nonfat dry milk rose 3.4 cents between February 1957 and February 1960, or from 44.2 cents to 47.6 cents. Over the same period, the farm value of the skim milk equivalent of a pound of nonfat dry milk at retail dropped 1.1 cents. Thus, over a 36-month period, the marketing margin rose 4.5 cents, while the farmer's share of the retail price dropped from 19 percent to 16 percent.

Detailed study of the distribution of the retail price for December 1958 shows that farmers received 15 cents of each dollar consumers spent for instant nonfat dry milk. The rest of the consumer's dollar was divided as follows: Processors, 14 cents; distributors (for instantizing, packaging, advertising, and distributing) 48

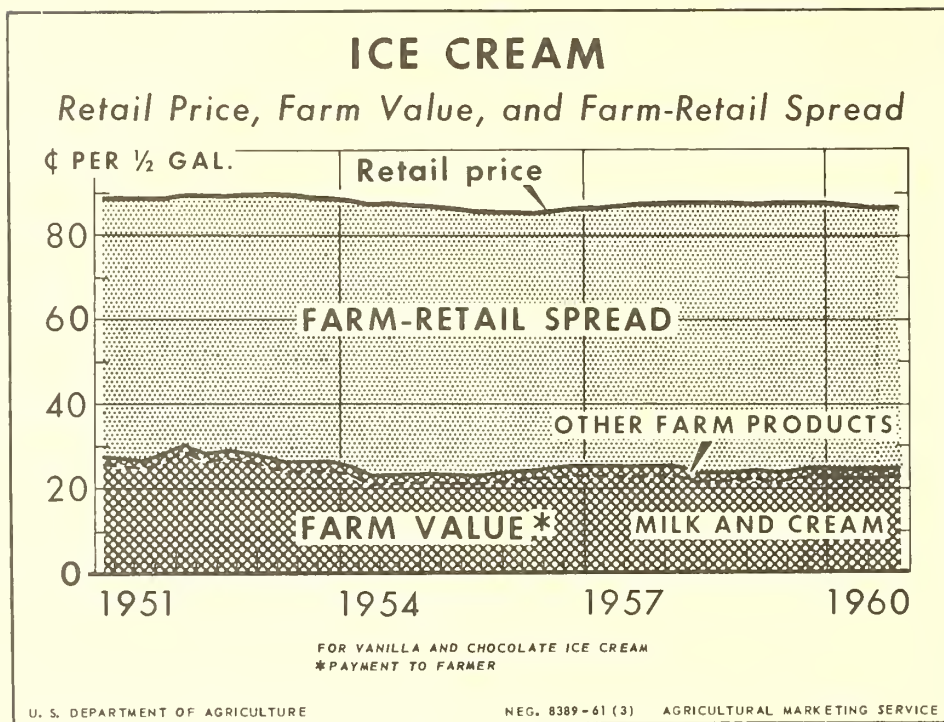


Figure 17

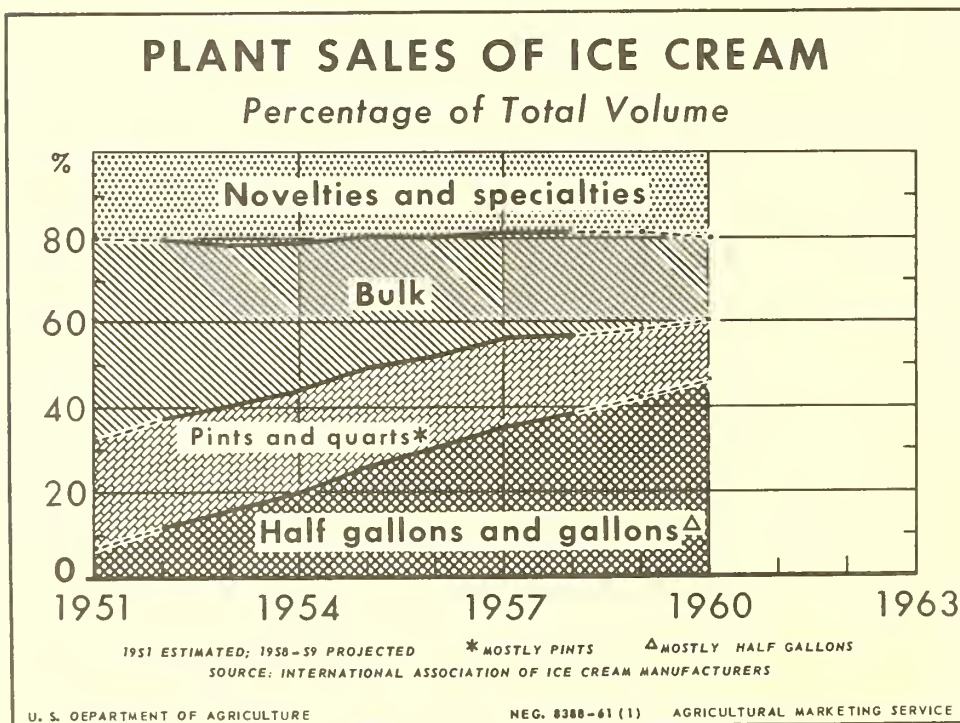


Figure 18



cents; wholesalers, 5 cents; and retailers, 18 cents.

### Poultry and Eggs

Farm-retail spreads for both eggs and frying chickens declined in 1960. Thus, increases in retail prices of these products were correspondingly smaller than the increases in farm prices between 1959 and 1960.

As shown in figures 19 and 20, farm-retail spreads for eggs and frying chickens have been relatively stable in the last decade. All of the decline in farm prices has been reflected in lower prices to consumers in contrast to most food products where lower farm prices have been more than offset by higher marketing spreads.

Eggs.--For Grade A eggs marketed in 10 major cities in 1960 farm-retail spreads averaged 23.4 cents a dozen on Grade A large eggs in 1960, down 1.1 cents from 1959 (fig. 21). Both retail store and receiver-retailer spreads decreased enough to more than offset a slight increase in the farm-receiver spread.

Spreads between the farmer and the retailer among the 10 cities in 1960 were narrowest in Los Angeles, where they decreased 1.7 cents a dozen from 1959 to 1960. This decrease accounted for most of the drop in the total farm-retail spread in that city. A recent analysis of the Los Angeles egg market concluded that even though the organization of the market encourages efficiency in marketing operations, opportunities were available for further cost reductions. Potentials for improvements in efficiency may be greater in markets where spreads are wider.

Cities mainly supplied with eggs produced in nearby areas (sometimes referred to as "egg sheds") and with generally more direct systems of marketing to retail stores tend to have comparatively narrow farm-retailer price spreads. For example, this spread in Atlanta declined about 3 cents a dozen in the last 5 years, as the increase in nearby egg production

brought Georgia into a surplus position. In New York, farm-retailer spreads for nearby eggs were lower than for most of the other cities except Los Angeles, but those for midwestern eggs sold in New York were higher than for any of the other cities.

Frying chickens.--Farm-retail price spreads on ready-to-cook frying chickens in the United States were 19.4 cents a pound in 1960, the lowest recorded in more than a decade (fig. 20). Prices for frying chickens in 1960 were higher than a year earlier even though supplies were larger. The farm value averaged 23.3 cents, up from 22.0 cents in 1959. This increase of 1.3 cents was partly offset by a decline of 0.6 cent in the spread, so the retail price increased 0.7 cent, to 42.7 cents per pound. The farmer's share of the retail price rose to 55 percent in 1960, from 52 percent the previous year.

Turkeys.--Farm-retail spreads for medium-size turkeys in 5 major cities were generally higher in the last quarter of 1960 than a year ago. Prices at all market levels for these turkeys also were generally higher and they fluctuated less than in the last quarter of 1959. For large turkeys, farm-retail price spreads and retail prices also were higher, but farm values were lower in the fourth quarter 1960 than a year earlier. Newspaper-advertised retail prices for large turkeys in 5 major cities averaged less during the week before Christmas in 1960 than in 1959. Prices for medium and small turkeys did not differ much during the two Christmas sales periods. Retail turkey prices have generally averaged higher for the Christmas holiday season than for the Thanksgiving holiday.

Higher 1960 prices for small and medium turkeys were partly due to shorter supplies because of the sharp drop from 1959 in numbers of Beltsville turkeys

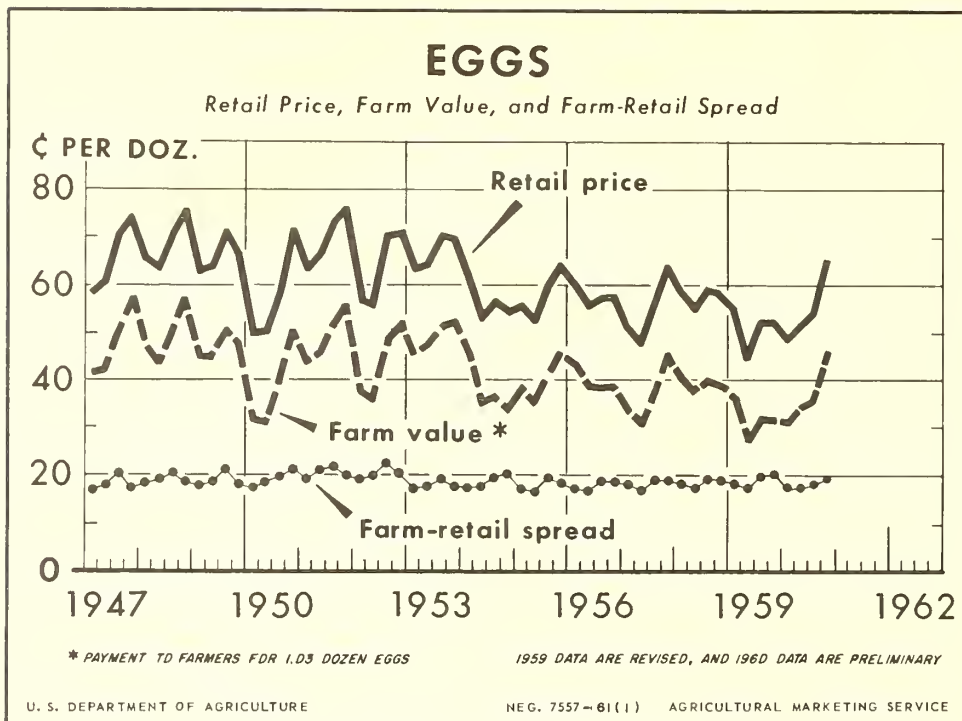


Figure 19

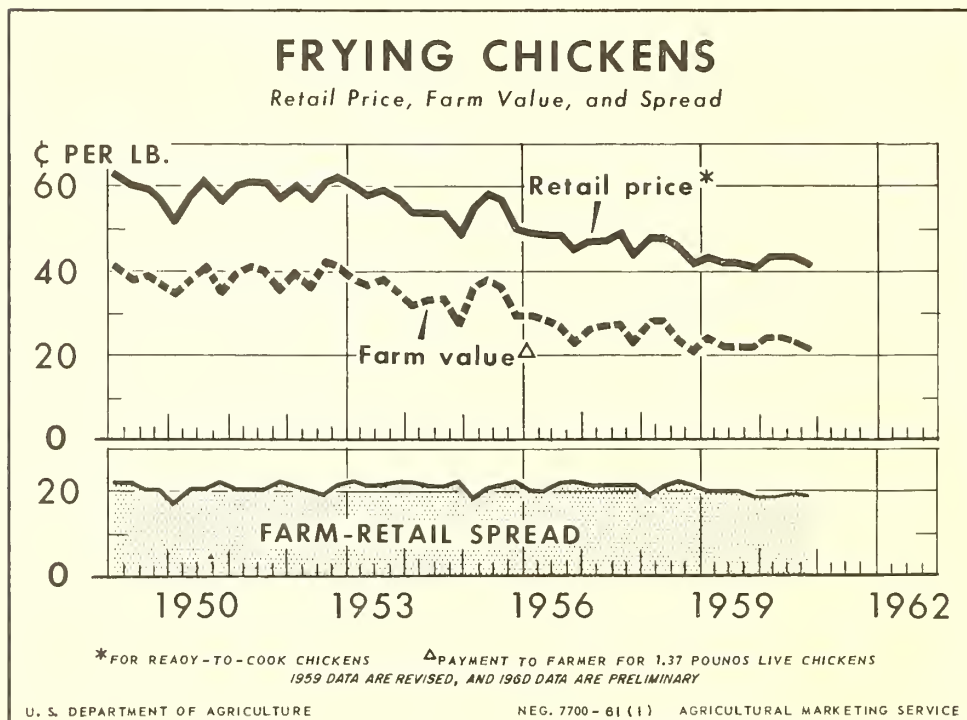


Figure 20

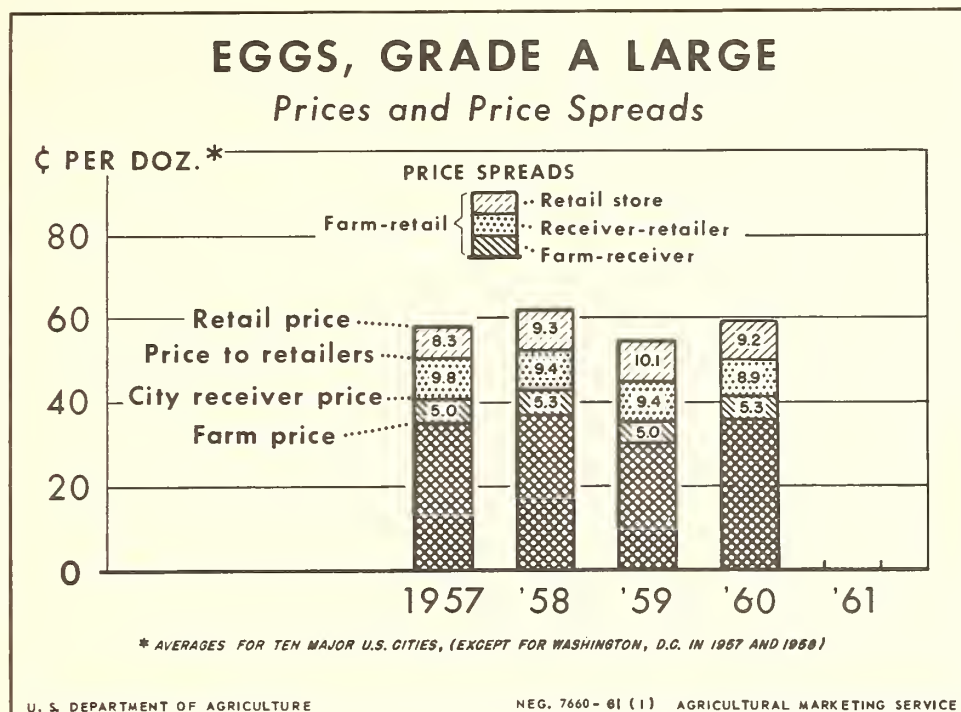


Figure 21

raised. More heavy-breed turkeys were raised in 1960 than in the preceding year but many were slaughtered at light weights to help meet the demand for small

birds. Substantial Government purchases and exports, which were more than double the 1959 volume, also influenced the turkey market in 1960.

### Fruits and Vegetables

Fruits and vegetables in the family market basket cost consumers 3 percent more in 1960 than in 1959. Marketing margins for all fruits and vegetables increased moderately, and prices received by farmers were slightly higher. For fresh fruits and vegetables retail prices, farm values, and marketing margins all increased from the previous year. Retail prices increased about 8 percent, marketing margins 4 percent, and growers' prices about 15 percent. For processed fruits and vegetables, the farm value was down 14 percent.

Compared with 1947-49 averages, the 1960 prices, farm values, and margins were markedly higher. Retail prices of fruit and vegetables were 28 percent higher, farm values were up 18 percent;

and farm-retail margins were 34 percent wider than in 1947-49.

Orange juice.--The findings in a study of costs of marketing oranges in various forms in the 1958-59 season are shown in figure 22. In New York and Chicago, canned or frozen concentrated orange juice was less expensive than juice from fresh oranges in 1958-59. The quantity of Florida fresh oranges (approximately 3 pounds) required to yield 24 ounces of juice cost New Yorkers an average of 36.4 cents. Equivalent quantities of canned single-strength juice (24-ounce can) cost 23.1 cents and of frozen concentrate (6-ounce can) cost 25.4 cents (fig. 22). California fresh oranges were more expensive than Florida fresh oranges. Probably few eastern consumers



# FRESH AND PROCESSED ORANGES

Retail Prices, Marketing Margins and Grower Returns, 1958-59 Season

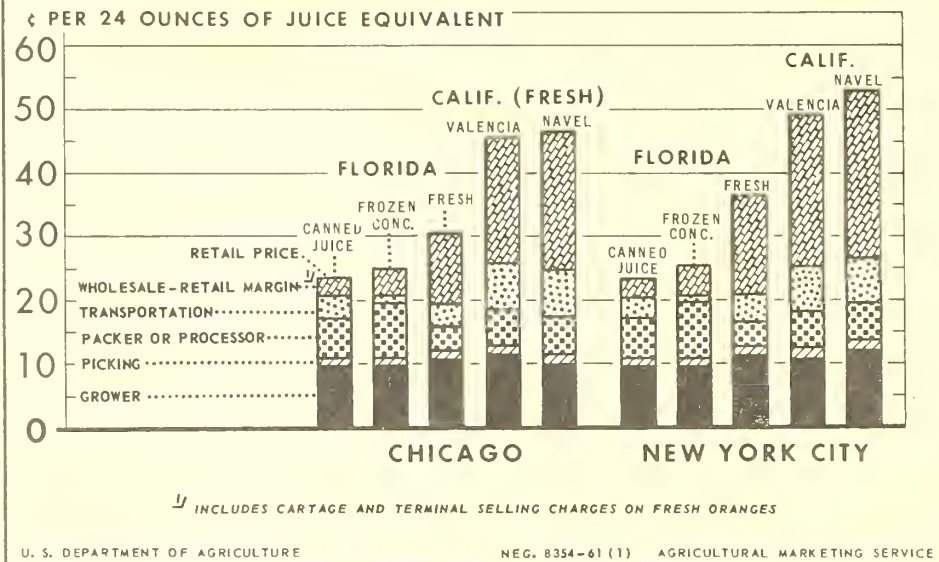


Figure 22

buy California Navel oranges for juice.

It cost considerably less to market the processed products than fresh oranges. The average marketing margin for quantities equivalent to 24 ounces of juice marketed in New York during the 1958-59 season was 13.5 cents for canned orange juice, 15.8 cents for frozen concentrate, and 25.1 cents for fresh Florida oranges. The marketing margin accounted for about 70 percent of the retail price of fresh oranges and about 60 percent of the retail prices of canned juice and frozen concentrate.

Among the various segments of the total marketing margin, the biggest differences were for wholesaling and retailing. The combined wholesale-retail margin for Florida fresh oranges in New York was five times that for canned juice. The higher costs of handling fresh oranges, which are more perishable and bulky than the processed products, account for the big differences in these margins. Transportation charges also were considerably higher for fresh oranges than

for equivalent quantities of the processed products, principally because of differences in weight. Shipping charges for Florida oranges were nearly five times those for frozen concentrate. Charges for processing canned juice and frozen concentrate, however, exceeded packing and other local marketing charges for fresh oranges. The processing margin for frozen concentrate was more than twice packing charges for Florida fresh oranges.

Returns to Florida growers derived from retail prices in New York and Chicago during the 1958-59 marketing season were higher for fresh oranges than for oranges for processing. For the entire 1958-59 crop, however, prices received by Florida growers averaged higher for oranges for processing than those for fresh use.

Potatoes and potato products.--More foods in more convenient forms are available to consumers than ever before, due to innovations in processing and distribution. A case study of marketing

potatoes and potato products retailed in stores of four grocery chains in Washington, D. C., from July 1959 to June 1960 illustrates the impact of these innovations on grower's returns and marketing margins.

During the 1959 crop year 4 billion pounds of potatoes went into processed food products. Potatoes processed increased from 15 percent of the potatoes used for food in the 1956 crop year to 22 percent in 1959.

Growers received a smaller share of the retail price of potatoes marketed in processed form than for those marketed fresh. About 16 percent of the retail price was returned to growers both for frozen french-fried potatoes and for dehydrated mashed potatoes. Returns for fresh potatoes ranged from 32 to 45 percent of the retail price, depending upon origin of the potatoes (fig. 23).

The grower's share is smaller for processed potatoes than for fresh because farm prices are lower and marketing

charges are higher. Lower prices were paid for potatoes going into processing because processors scheduled much of their production during periods of abundant supply and lower prices. Processors also pay less for their potatoes because they are able to utilize potatoes of a lower grade than are suitable for the fresh market. These potatoes are usually of an odd size or contain external defects, neither of which affects processing quality.

Marketing margins ranged from \$10.92 for frozen french-fried potatoes to \$2.54 for equivalent quantities of fresh Long Island potatoes. The processor's margin was the largest component of the marketing margin for processed products. It averaged 54 percent of retail price for frozen french-fried potatoes and 60 percent for dehydrated mashed potatoes. In comparison, the packer's margin for fresh potatoes ranged from 12 to 18 percent of the retail price. The retail margin was the largest component of the marketing margin for fresh potatoes. It varied from 25 percent of the retail price for Long Island potatoes to 32 percent for

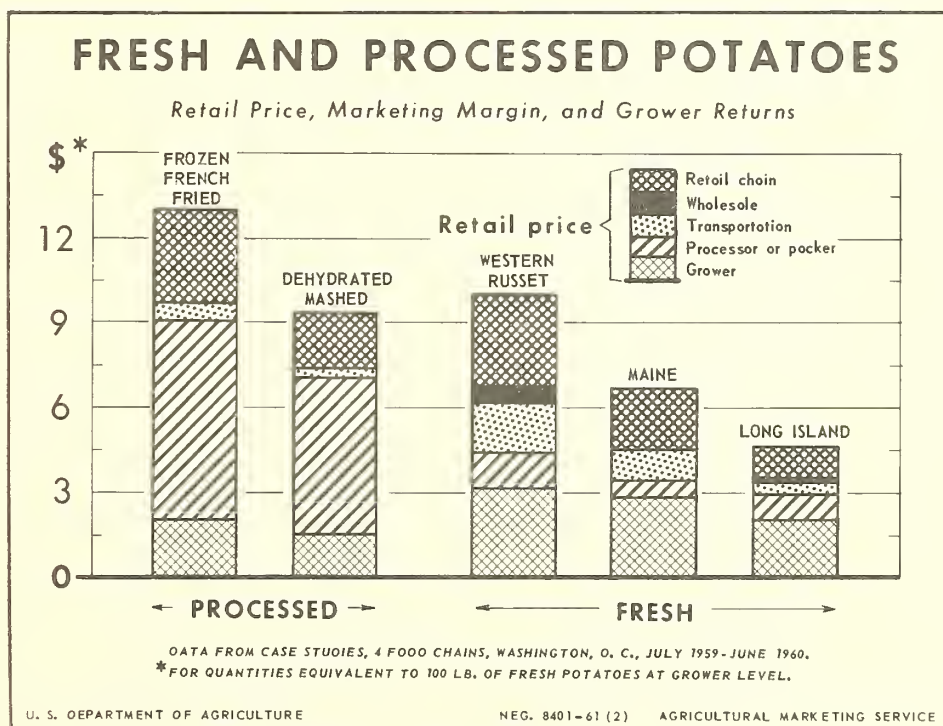


Figure 23



Western Russet and Maine potatoes.

19 percent of the retail price.

Transportation charges were much lower for processed potato products than for equivalent quantities of fresh potatoes. They accounted for only 2 percent of the retail price for dehydrated mashed potatoes. But for fresh Idaho potatoes, transportation charges were as high as

Retail selling prices and costs to the retailer of dehydrated mashed potatoes varied widely from month to month because of promotional schemes, discounts, and special allowances offered to retailers by manufacturers. Most of these promotional activities tended to increase the retail margin.

### Cotton and Tobacco Products

Margins data for cotton and tobacco products are computed and published regularly in The Marketing and Transportation Situation.

Cotton.--The spread between retail prices of cotton products and the farm value of the lint cotton used in their manufacture in 1960 increased for the second consecutive year. The 1960 annual average equaled the record established in 1948 and was about 3 percent greater than in 1959. The farm value of the cotton used in 25 representative items of cotton clothing and household furnishings declined to an average of about 30 cents a pound in 1960, about 3 percent below that for 1959, and about 27 percent below the record high of 1951. Retail prices of the equivalent of 1 pound of cotton increased to an average of about \$2.17 in 1960, about 2 percent above that in 1959, and about 3 percent below the 1951 peak. The farmer's share of the consumer's dollar averaged about 14 percent in 1960, compared with 15 percent in 1959 and with the high of 18 percent in 1951 and 1952 (fig. 24).

Cotton accounted for larger proportions of the retail prices of house furnishing than of clothing. The farmer's share of the consumer's dollar for house furnishing decreased from 25 percent in 1955 to 21 percent in 1960, compared with a decrease from 13 percent in 1955 to 11 percent in 1960 for clothing. The farmer's share for individual items decreased from 37 percent in 1955 to 31 percent in 1960 for sheets, from 19 percent in 1951 to 14 percent for work shirts, and from

8 percent in 1958 to 6 percent in 1960 for business shirts.

In recent years, prices received by mills for unfinished cotton cloth have risen, prices of raw cotton have declined, and mill margins have widened. Mill margins for manufacturers of 20 selected constructions averaged about 50 percent of the value of the unfinished cloth during the year ended with July 1960, compared with about 40 percent for the year ended with July 1958, and was substantially under that for any other recent year.

Tobacco.--Retail prices of cigarettes increased again last year, as they have each year since 1950. Retail prices of regular-size, popular brand cigarettes rose to 27.1 cents per package in 1959-60, up 1.7 cents from the year before (fig. 25). The farm value of the tobacco used in these cigarettes dropped to 3.8 cents, down 0.2 cent from 1958-59. Thus, the farm-retail spread increased 1.9 cents. About 0.8 cent of this increase resulted from a rise in the average State excise tax. The farm-retail spread, excluding taxes, of 11.3 cents in 1959-60, up from 10.2 cents in 1958-59 reflects an increase of 0.2 cent for manufacturers and leaf dealers and 0.9 cent for distributors. The farmer's share of the retail price declined to 14.2 percent, the smallest share since the year ended June 1942.

The retail cost of the four major tobacco products made from 1 pound of leaf tobacco continued to increase in 1960, rising to \$3.96 in the year ended

June 30, 1960, from \$3.70 for the preceding 12 months. The increase of 26 cents reflected increased excise taxes and wider marketing spreads (excluding

taxes). The farm value of the leaf tobacco used in these products declined to 57.7 cents per pound, from 59.8 cents in 1958-59.

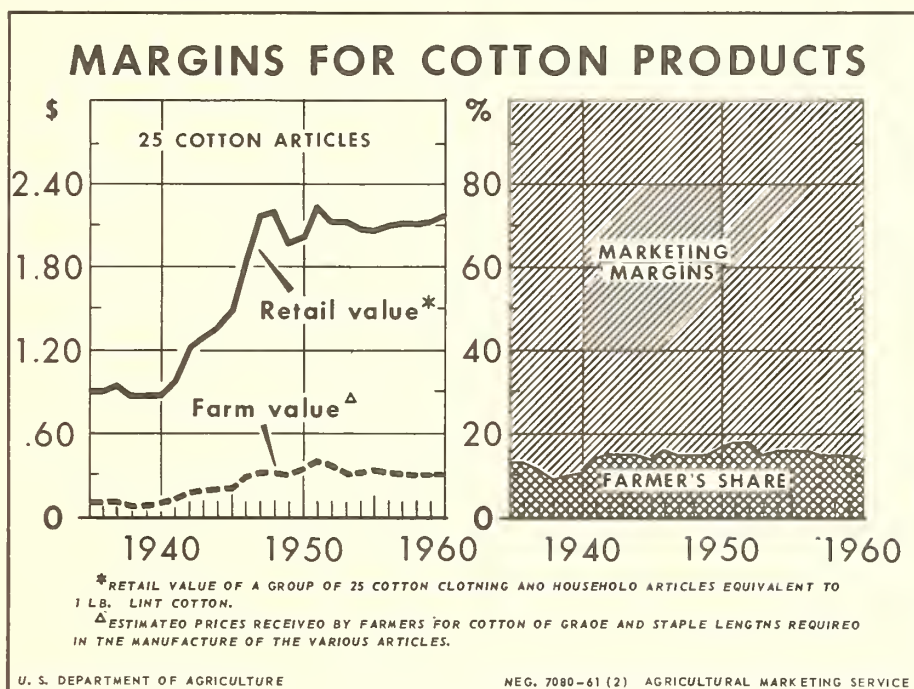


Figure 24

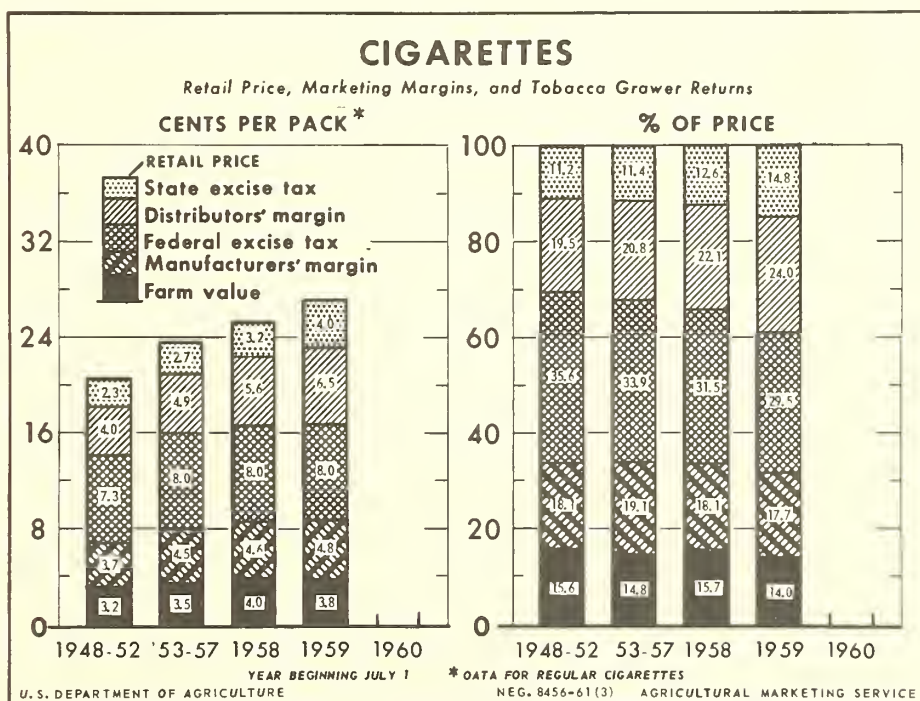


Figure 25

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